

Ambac

AAA



Fourth Quarter 2007

Summarized Results

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- ▶ **Rating agency status**
 - Moody's: review for possible downgrade
 - S&P: credit watch negative
 - Fitch: downgraded to AA, rating watch negative
- ▶ **Capital Enhancement Plan**
 - Market conditions not attractive for equity or debt raise; considering alternatives
 - Dividend reduction
- ▶ **Management Changes**
 - CEO - Bob Genader retired; long-time Board of Directors member, Mike Callen, named Chairman and Interim CEO
 - Director - Grant Gregory resigned January 13 to concentrate on responsibilities as President of Cerberus Operations and Advisory Company, LLC
- ▶ **Mark-to-market losses**
 - \$5.2 billion pre-tax; \$3.4 billion after tax
- ▶ **Credit impairment and loss provision**
 - \$1.1 billion credit impairment losses on mezzanine CDO of MBS portfolio
 - \$208.5 million loss provision, primarily HELOCs and Closed End Seconds



- ▶ Estimating capital requirements based on hypothetical:
 - “worst case” ratings downgrades
 - “worst case” economic losses
- ▶ “Excess/Required” Capital for AAA
 - Moody’s does not require additional capital under their stress analysis
 - S&P requires additional \$400 million of capital
 - Fitch requires additional \$1 billion of capital



- ▶ Market dislocation and rating agency actions dominated the quarter
- ▶ All market issuance in 4Q was down from comparable prior quarter
- ▶ Insured penetration decreased in all sectors with Public Finance insured penetration at 41% in 4Q
- ▶ Pricing in all markets reflected spread widening
- ▶ International markets presented good opportunities during the quarter, but production is still lumpy and influenced by current credit concerns in the US

▶ **Mark-to-market losses**

- \$5.2 billion pre-tax; \$3.4 billion after tax
 - Significant spread widening on pricing since 3Q
- \$1.1 billion represents credit impairment losses on CDO portfolio
 - Relates to 4 CDO of ABS transactions backed primarily by mezzanine sub-prime residential mortgage backed securities
 - Deterioration during 4Q due to structural elements and event of default triggers
- Balance of the mark-to-market believed to not be predictive of future claims
- In the absence of further credit impairment, cumulative marks are expected to reverse over the remaining life of the insured transactions

▶ **Loss Provision**

- \$208.5 million loss provision, primarily HELOCs and Closed End Seconds
- \$9.2 million total net claims paid; \$8.1 million paid on HELOCs and Closed End Seconds



(\$ in millions, except share data)	4Q07	4Q06
Net Income	(\$3,255.6)	\$202.7
per diluted share	(\$31.85)	\$1.88
Operating Earnings	(\$635.0)	\$202.9
per diluted share	(\$6.21)	\$1.88
Core Earnings	(\$653.4)	\$184.8
per diluted share	(\$6.39)	\$1.71

- ▶ Net income declined because of unrealized mark-to-market losses in 4Q07 totaling to \$5.2 billion, pre-tax and increased loss provision.

CEP Summary



(\$ millions)		Public Finance	Structured Finance	International	Total
2006	1Q	\$ 99.2	\$ 90.7	\$ 43.6	\$ 233.5
	2Q	132.0	212.9	186.1	531.0
	3Q	89.8	78.6	47.8	216.2
	4Q	84.0	97.1	133.4	314.5
2006 Total		\$ 405.0	\$ 479.3	\$ 410.9	\$ 1,295.2
2007	1Q	\$ 114.6	\$ 135.4	\$ 60.1	\$ 310.1
	2Q	\$ 114.5	\$ 159.1	\$ 94.2	\$ 367.8
	3Q	\$ 151.3	\$ 108.2	\$ 171.6	\$ 431.1
	4Q	\$ 97.4	\$ 125.9	\$ 81.2	\$ 304.5
2007 Total		\$ 477.8	\$ 528.6	\$ 407.2	\$ 1,413.6

Normal Earned Premium



(\$ millions)	4Q07	4Q06	%
Public Finance	\$ 58.4	\$ 58.3	0%
Structured Finance	86.5	82.2	+ 5%
International	<u>58.5</u>	<u>50.8</u>	+ 15%
Total	<u>\$203.4</u>	<u>\$191.3</u>	+ 6%
Refundings and Accelerations	<u>\$ 29.8</u>	<u>\$32.1</u>	- 7%

- ▶ Public Finance earned premium growth impacted by the recent mix of business, competition and the high level of refundings in recent years.
- ▶ Structured Finance earned premium growth improving as a result of recent strong premium production in in several asset classes.
- ▶ International improving on strong writings in recent quarters and a one-time premium on a credit derivative transaction that matured. This premium resulted from the favorable credit performance of the transaction.

Financial Guarantee Investment Income



(\$ millions)	4Q07	4Q06	%
Investment Income	\$ 119.3	\$ 110.5	+ 8%
Pre-tax Yield to Maturity	4.63%	4.65%	
After-tax Yield to Maturity	4.24%	4.18%	

- ▶ Growth in investment income driven primarily by the positive operating cash flow generated by the financial guarantee segment
- ▶ At 12/31/07 approximately 79% of the portfolio is invested in tax-exempt securities compared to approximately 78% at 12/31/06
- ▶ Very strong investment quality with no sub-prime MBS exposure



(\$ millions)	4Q07	4Q06	%
FG underwriting/operating expenses	\$ 34.9	\$ 33.8	+ 3%
Financial Services operating expenses	2.7	2.4	+ 11%
Corporate operating expenses	<u>4.2</u>	<u>9.9</u>	- 58%
Total Operating Expenses	<u>\$ 41.8</u>	<u>\$ 46.1</u>	- 9%
Loss & loss adjustment expenses	<u>\$208.5</u>	<u>\$9.6</u>	n.m.

- ▶ Corporate expenses in 4Q06 included a \$6 million write-off of previously deferred issuance expenses on debt that was redeemed during 4Q06
- ▶ Loss & loss adjustment expenses in 4Q07 primarily HELOC and Closed End Seconds

n.m. - not meaningful

Book Value & Adjusted Book Value Per Share



	4Q07	4Q06
Book Value	\$22.41	\$58.54
After tax value of:		
Net unearned premium reserve less deferred acquisition costs	15.24	15.18
Present value of future installment premiums	18.48	14.78
Unrealized loss on investment agreement liabilities	(0.93)	(0.69)
Adjusted Book Value	<u>\$55.20</u>	<u>\$87.81</u>